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FISCAL IMPACT STATEMENT

LS 7876

BILL NUMBER: SB 483

NOTE PREPARED: Jan 15, 2003

BILL AMENDED:

SUBJECT: Tax Credits for Biodiesel and Gasohol.

FIRST AUTHOR: Sen. Waterman

FIRST SPONSOR:

BILL STATUS: As Introduced

FUNDS AFFECTED: X GENERAL
X DEDICATED
FEDERAL

IMPACT: State

Summary of Legislation: The bill provides income tax credits for the production and the retail sale of gasohol and biodiesel.

Effective Date: January 1, 2004.

Explanation of State Expenditures: The Department of State Revenue (DOR) would incur some administrative expenses relating to the revision of tax forms, instructions, and computer programs to incorporate these tax credits. These expenses presumably could be absorbed given the DOR's existing budget and resources.

Explanation of State Revenues: The revenue loss from tax credits claimed for production and sale of gasohol in Indiana could reduce state revenue by about \$39.6 M annually. Thus, the loss could potentially total about \$18M to \$19 M the second half of FY 2004, and \$39.6 M beginning in FY 2005. As data is unavailable, the amount of biodiesel production and sales is indeterminable. However, credits relating to this type of fuel are expected to be comparatively small.

Background: The bill establishes two nonrefundable tax credits for production and sale of *gasohol* or *biodiesel* in Indiana. The tax credits may be taken against the Gross Retail and Use Tax, Adjusted Gross Income (AGI) Tax, Insurance Premiums Tax, or Financial Institutions Tax liability. Gasohol is defined as gasoline containing at least 10% ethanol or ethyl tertiary butyl ether additives derived from ethanol. Biodiesel is defined as a renewable biodegradable, mono alkyl ester combustible liquid fuel derived from agricultural plant oils or animal fats. The producer tax credit is equal to \$0.18 per gallon of gasohol or biodiesel produced at an Indiana facility. The retailer tax credit is equal to \$0.025 per gallon of gasohol or biodiesel sold and

dispensed an Indiana gasoline dealer through metered service station pumps. To qualify for the retailer credit, however, more than 60% of the total gallons of motor fuel sold by the dealer in Indiana must be gasohol or biodiesel. The bill requires the retailer credit to be computed separately for each service station operated by a dealer in Indiana. Reportedly, about 85 M gallons of ethanol are produced annually in Indiana, and about 972 M gallons of ethanol are sold annually in Indiana. Data on biodiesel production and sales is unavailable. Based on the ethanol totals, credits for ethanol production could total \$15.3 M per year, and credits for ethanol sales could total about \$24.3 M per year. The loss from the retailer credit could be lower to the extent that some dealers selling gasohol fail to meet the 60% sales requirement in the bill.

The producer and retailer tax credits are not refundable but may be carried forward to subsequent years. Taxpayers are not entitled to a carryback either tax credit. If a taxpayer is a pass through entity and does not have a tax liability, the credit could be taken by shareholders, partners, or members of the pass through entity in proportion to their distributive income from the pass through entity.

Since the tax credits are effective beginning in tax year 2004, the fiscal impact could potentially begin in the second half of FY 2004 (due to sales tax credits and changes in estimated quarterly income tax payments). Revenue from the AGI Tax on corporations, the Insurance Premiums Tax, and the Financial Institutions Tax is distributed to the state General Fund. Eighty-six percent of the revenue from the AGI Tax on individuals is deposited in the state General Fund, and 14% of this revenue is deposited in the Property Tax Replacement Fund. Since the tax credits are effective beginning in tax year 2004, the fiscal impact would begin in FY 2005. Sales Tax revenue is deposited in the Property Tax Replacement Fund (50%), the state General Fund (49.192%), the Public Mass Transportation Fund (0.635%), the Commuter Rail Service Fund (0.14%), and the Industrial Rail Service Loan Fund (0.033%).

Explanation of Local Expenditures:

Explanation of Local Revenues:

State Agencies Affected: Department of State Revenue.

Local Agencies Affected:

Information Sources: *Ethanol Industry Outlook 2001*, Renewable Fuels Association, <http://www.ethanolrfa.org/rfareport2001.html>.

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